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To The Subcommittee on Economic Statistics
OF THE JOINT ECONOMIC COMMITTEE
OF THE CONGRESS OF THE UNITED STATES

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Few subjects arouse more heated controversy than that which your Committee is studying; namely, the comparison of the economies of the United States and the Soviet Union.

There are proponents of the view that the Soviet Union is relatively backward. There are others who picture it as a galloping giant which exceeds us not only in its present speed but in staying power.

In the Central Intelligence Agency we devote a major effort to the analysis of this problem. We gather together the best technicians available, in and out of Government, to advise us on the various aspects of the Soviet economy -- from agriculture on the one hand to the most sophisticated technical and military items on the other. We have a great mass of evidence to weigh. We try to do it without prejudice.

We have also carefully reviewed the papers which your Committee has already received and published. You are to be congratulated on the general excellence of these studies.

There are many reasons for the divergence of views among experts. A great deal depends upon the particular sector of the Soviet economy that is under study.

The Soviet Union is extremely proficient in certain areas, especially in the scientific and technological fields related to its military effort. In other areas which up to the present time the Soviets have considered secondary, their performance ranges from fair to mediocre.

In some important areas, particularly agriculture, their efforts have been hampered by the tendency to impose on the tillers of the soil some of the precepts of Marx through the system of collective farms and rigid state control. Such ideological considerations, in recent years at least, have not hampered their progress in the field of science and technology.

Returning American experts after visiting the USSR reflect these contrasts. Those experts who have concentrated their study on Soviet achievements in the fields of steel production, heat resistant metals, electronics, aeronautics and space technology, atomic energy, machine tools, and the like, come back with the general findings that the USSR is highly competent.

On the other hand those who have studied what the Soviets are doing in agriculture, roadbuilding, housing, retail trade, and in the consumer goods field, including textiles, find them lagging far behind us. Some recent returning visitors to the Soviet Union remarked with surprise that they can send a Lunik to the moon, but can't make the plumbing work.

This is a crude comparison but does help to illustrate where Soviet priorities lie.

The lag I have mentioned, does not reflect Soviet inability to do these particular things. It does evidence a definite decision to defer them to the higher priority objectives of industrial and military power and an unwillingness, at this time, to devote the funds and manpower necessary to the modernization of production equipment in the consumer goods field.

At first blush, one might conclude that the USSR was a country of contrasts but this is only superficially true. It is a country of concentration -- concentration on those aspects of production and of economic development which the Soviet leaders feel will enhance their power position in the world. They tend to neglect, or to postpone, those endeavors which would lead to a fuller life for their people.

The attitude they take toward automobiles is a good illustration of this policy. Mr. Khrushchev was undoubtedly impressed by the view he gained of our overall economic strength. He was by no means persuaded that he should emulate us in the automotive field. In an address at Vladivostok about a month ago, he said that it was,

"Not at all our aim to compete with the Americans in the producing of a large number of cars. . . . We shall produce many cars but not at the moment. We want to set up a different system for the use of cars than the one in capitalistic countries. . . . Cars will be used in our country more rationally than it is done by the Americans. Common taxicab parks will be widely developed in our country, where people will take cars for essential purposes."

He did not add, but it does cross one's mind, that his system also gives the regime a better chance to maintain its control over the people.

In effect Khrushchev is also implying that he does not propose to divert to car production resources which could contribute to build up heavy industry and military strength.

Another illustration of the Soviet ability to concentrate and allocate resources for the greater power of the State is in the use of highly skilled manpower including scientists and technologists.

Once they have determined upon a project -- and they have fewer echelons of decisions to surmount than we before the final go-ahead is given -- they are able to divert to this project the needed complement of the ablest technicians in the USSR which the particular task demands. They can also quickly allocate the necessary laboratory or factory space/requirements. Today although their overall resources are far less than ours, they can allocate what is necessary if the priority is high enough.

They cannot do everything at once and they do not work on as many competing designs as we. But in many of the technical and military fields the leadtime from the drawing board to the finished product is less with them than with us. This seems to be true despite the fact that generally speaking the technical competence of our labor, man for man, exceeds theirs.

Furthermore,
/ our military production program is in competition as respects brains in the planning, and brawn in the production, with the requirements for the manufacture of consumer goods. In the Soviet Union this type of competition now is negligible.

The Soviets are also quick to review industrial and military programs when they find them inconsistent with their overall goals or too costly in terms of money or manpower. In 1956 they advertised widely a program in the field of nuclear power for industrial and peaceful purposes, of 2,500 megawatts to be achieved in 1960. Gradually they have screened this down to a point less than 30% of their initial goal. Apparently they found it too costly for what they were achieving, whether in terms of electric power or in terms of its propaganda value.

While they keep as secret as they can, the details of their military programs and progress, Mr. Khrushchev did tell us that heavy bombers should be consigned to museums and that he is generally turning from bombers to missiles. The evidence tends to bear out a change in policy here as well as in naval construction where the building of cruisers has apparently been halted.

While we know a great deal more about their overall military programs than the Soviet tells us, their screen of secrecy makes it difficult to estimate with precision the exact percentage of the Soviet GNP which it absorbs. We estimate, however, that with a Gross National Product (GNP) of about 45% of ours, their military effort, in terms of value, is roughly comparable to our own -- a little less in terms of hardware produced but substantially more in terms of manpower under arms. Military hardware comes out of the most efficient sector of their economy.

With respect to the productivity of Soviet labor generally, the comparative picture is very different. Today they have on the farms over 45 million men and women, or nearly one-half of their total labor contingent. With us the numbers of workers in agriculture is only about 10% of our total labor force and with this force we produce about one-third more than does Soviet agriculture. In the industrial sector they have 20% more labor than we to produce the equivalent of about 40% of our total production.

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It is the task of this Subcommittee, I understand, to reach some conclusions regarding the present strength of the Soviet economy, its past rates of progress, and its prospects for future growth. With these introductory remarks on the general background of the Soviet economy and its overall objectives, I will turn to the particular subjects of your inquiry.

The year 1913 is taken as the base for many Soviet studies and claims. The Soviets try to picture pre-revolutionary Russia as the economic counterpart of Black Africa today. The official myth about the relative backwardness of Imperial Russia has been deliberately created so that communist economic achievements will appear to be even greater than in fact they have been. The Soviet party line would have you believe that Russian industrial output was less than 7 per cent of that of the United States in 1913.

Recently the dean of Soviet economists, Academician Strumilin, published a pamphlet which deflated official communist claims. He calculated Soviet 1913 output at between 11 and 12 per cent of that of the U.S. Having passed his 80th birthday, Strumilin, undoubtedly felt it was time to write objectively.

The weight of evidence, as I see it, would place pre-revolutionary Russia as the sixth or seventh largest industrial power of its time, though relatively backward by then existing Western European standards of per capita output.

Further, Russia had in hand many of the keys for rapid economic development which were, of course, taken over by the communists after 1917. For example, its agricultural output in 1913 was not only able to provide an adequate diet for its people, but also to generate an export surplus. There was no pressure of population against food resources.

The country was richly endowed with coal, iron ore, petroleum deposits and other essential industrial materials. For example, Russia accounted for about half the world's production of petroleum in the early 1900's. After the subsequent major discoveries in the United States, Russia's relative position declined, but in 1913, she was still a major world oil producer. Even in 1913 Russia had a modest but growing machine building industry, a well developed rail transport net, and a supply of technical talent.

So much for what existed prior to the communist takeover in 1917. The first major problems that faced the revolutionists were political and military -- to get Russia out of the war with Germany, to bring the internal civil war to a successful conclusion, and later to resolve the battle for control within the Communist Party itself which followed the death of Lenin. This took the better part of a decade. By 1928, three important developments had taken place:

First, Stalin had emerged as the absolute victor in the internal power struggle.

Second, the economy had then been restored to its 1913 level of output, and

Third, out of the murky dogma of Marxism and Leninism, the surviving Communist leadership had molded a program of economic action which remains in force today.

The central theme of this program is forced draft industrialization.

Having determined on this objective the Communist leadership proceeded to implement their decision through the mechanism of detailed plans, rigid allocation of resources, and the use of force where necessary.

In the short space of 30 years, from 1920, despite the ravages of four war years and several years of reconstruction between 1941 and 1950, the Soviet Union has become second among the world's industrial powers. There is no dispute on this point.

Furthermore, in reviewing the various studies of Western scholars, I have been struck by the substantial agreement on the rate of industrial growth achieved by the Soviet Union over the period since 1950. The range of estimates is from 9 to 10.5 per cent a year.

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The finding of a study, conducted by the National Bureau of Economic Research, appears to be an exception. This exception, in my opinion, is more apparent than real.

The N.B.E.R. study covers only the period 1950-1954, where

the growth is placed at 7.7 per cent for the period 1950-1954.

The most important difference between the National Bureau's

figure of 7.7 per cent and the 10.7 per cent figure is

due to our inclusion of military production, which became large

in the overall production figure. The inclusion of military

production to the National Bureau's figure would tend to raise it

to the range I have indicated.

new paragraph

Virtually all Western measure of growth point to the conclusion that Soviet industrial production in 1958 has been growing at least twice as rapidly as that of the United States since 1950.

Turning from industrial production to a more comprehensive, but in many ways less significant, measure of economic growth, namely gross national product, we find similar parallels between the CIA and independent private studies of the Soviet economy.

We estimate the growth in total GNP during the present decade, 1950 - 1958, to have been at an annual average rate of about 7 per cent measured in constant prices. Estimates by others for similar time periods range from a low of 5 per cent to a high of 9 per cent. The degree of agreement is perhaps even closer than this range would indicate since these estimates have varying initial and terminal dates within the decade. The conclusion, then, is that Soviet GNP has also been growing twice as rapidly as that of the U.S. over the past eight years.

Some observers have noted that, in the past, the United States experienced long-term rates of growth comparable to the Soviet achievement from 1913 to the present. Such rough statistical equality would be true, for example, if the four decades of U.S. growth ending with our entry into World War I were selected for comparison. Those who would play down Soviet achievements leap from this statistical springboard to the conclusion that there is nothing unique about Soviet industrial progress. Indeed, they say, we did it ourselves at a "comparable stage of development in United States."

Such conclusions omit mention of the uniquely favorable conditions that stimulated our growth prior to World War I. Such factors include the massive immigration of European workers, the influx of investment funds to make possible our rapid rate of industrialization, and the low level of defense expenditures. The point is not only that these factors no longer exist in the United States, but also that they never existed for long in the Soviet Union.

Let me illustrate this interpretation of history with another case. The National Bureau study estimates Soviet annual industrial growth from 1913 to 1955 at 3.9 per cent. But how relevant, in forecasting the future, is the inclusion of the years between 1913 and 1928? These years for the USSR were marked by wars, internal and external, by political upheaval, mass imprisonment and chaos. By 1928 they were about back to the 1913 level. For example, Soviet steel production in the USSR in 1913 was a little over four million tons; by 1928 it was still just a little over four million tons.

If the first 15 years are eliminated, as we believe they should, and growth is measured from 1928 through 1958, the conclusion is inescapable that Soviet economy has surged forward very rapidly indeed. The rate was faster than for American industry over these years, despite the effects of World War II, which stimulated industrial growth in the United States but was a disaster for the USSR.

But let us not forget that the West did the pioneering. Soviet industrial development was built upon, and profited from, the technology already developed by the West from the days of the industrial revolution.

The statement, frequently made, that much of postwar Soviet growth came from looting plants in Manchuria and East Germany, does not stand up if closely examined. The early rehabilitation of war-damaged Soviet manufacturing plants was aided by these forced imports; the total benefit, however, was small compared with wartime losses.

Espionage and the reliance on outside technical experts, particularly German, is also alleged to have been of crucial importance to Soviet industrial success since World War II. In a few key industries of military significance, most particularly in atomic energy and in the field of ballistic missiles, this had some importance in the very early stages of Soviet postwar development, but looked at in the perspective of Soviet industrial military growth as a whole, and their present competence in both the ballistic and nuclear fields, these factors played a relatively minor role. They have gained much more in the overall industrial field from the acquisition and copying of advanced western models of specialized equipment.

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Turning from the past to the future, we have not attempted to distill a "best estimate" of future Soviet prospects for economic growth out of the vagaries of 30 or 45 years of Soviet history.

Instead, we have asked ourselves three questions:

First, what have the Soviet shown a capacity to do under present prevailing conditions?

Second, what do the Soviet leaders intend to do, and

Third, what are the Soviet's prospects for the achievement of their goals, assuming there are no intervening catastrophes, such as war, famine, and the like.

As to the first point, Soviet performance on past plans has been relatively good. The Fourth Five Year Plan (1946-50) was fulfilled well ahead of schedule. The goals of the Fifth Five Year Plan were more than met, particularly postwar.

The Sixth Five Year Plan was abandoned early in its life. It soon was apparent that it was too ambitious. In contrast, the Seven Year Plan (1959-65) was more carefully drawn and is a reasonable blueprint of attainable growth. Experience teaches us that Soviet industrial plans should be taken seriously.

With respect to their intentions, the Soviet leaders have left no room for doubt. The obsession with overtaking the U.S. economy in the shortest possible historical time was the dominant theme of the 21st Party Congress held last February. It continues to be so. Mr. Khrushchev's words to the Congress were:

"The Soviet Union intends to outstrip the United States economically . . . To surpass the level of production in the United States means to exceed the highest indexes of capitalism."

Visitors to the Soviet Union report the slogan, "Even America must be surpassed," painted on the cow barns throughout the country.

The USSR is now in the opening stages of the Seven Year Plan, which blueprints industrial development through 1965. This plan establishes the formidable task of increasing industrial output by 80 per cent over seven years. The achievement of this goal will narrow the present gap between Soviet and United States industrial output. This would be particularly true in the basic raw materials and producers goods fields.

In our judgment, these goals can be met, with certain exceptions.

Past Soviet economic growth has rested largely on the plowing back of every possible ruble into heavy industry, into the means of production. It is the use of steel to make steel capacity greater, rather than to use it up by manufacturing automobiles, for example.

The magnitude of the investment program in the Seven Year Plan, the Plan that runs through 1965, is impressive by any standards of comparison. Capital investment in Soviet industry for the year 1959, the initial year of the plan, when measured in dollars, will be approximately equal to industrial investment in the United States, this year. The Soviets plan proportionately larger investment outlays for the succeeding years through 1965. These absolute amounts of investment are being fed into an industrial system whose output in 1958 was only about 40 per cent of the United States. Under such forced draft feeding the Soviet industrial plant should grow at a rapid rate.

On the other hand, we see no prospect that the agricultural goals of the Seven Year Plan will be approached. The dramatic increase of 7 per cent per annum achieved over the 1953-58 period was the result of a six-year effort to raise agriculture out of the trough in which Stalin had left it. A variety of factors including increased inputs of resources, more efficient use of resources, and at least two unusually good weather years contributed to this record growth.

We estimate, however, that these resource and efficiency gains will not be repeated in the present plan period. Given average weather, net agricultural output will probably not increase under the Seven Year Plan more than 18 to 20 per cent by 1965. Such a modest growth is well below the implied planned growth of 55 - 60 per cent.

New paragraph *1/5* Of course the regime may be stimulated to undertake drastic new programs or new resource commitments not presently planned.

Because the agricultural sector of the Soviet economy in the past has been its least efficient component we do not reject the possibility of more improvement than we presently forecast.

Apart from the problem of agricultural growth, the Soviet Union under the present Seven Year Plan will be forced to cope with certain foreseeable difficulties, in addition to the unpredictable -- such as acts of God and the uncertainties which might attend possible policy changes incident to any new management in the Kremlin. While these foreseeable problems are significant we believe their impact is more likely to place a ceiling on the Kremlin's ambitions for overfulfillment rather than to threaten the success of the plan itself.

Among these foreseeable ~~difficulties~~ are the following:

First, due to the lower birthrate during the war years, there is an obvious gap between the 1950-55 increase in the number of persons in the working age group (15-69) and the labor force increment necessary to meet the planned goals. The regime has recognized this problem and is taking steps to fill the gap. The men under arms, the surplus of people on the farms (if more efficient techniques are introduced into agriculture) and students found unqualified for advanced education, are possible sources of additional manpower for industry.

Second, the metallurgical raw material and the energy industries, which were slighted in the rapid expansion of the 1950-55 period, must now be brought into balance with the rest of the economy. These former stepchildren will be receiving about half of all industrial investment under the Seven Year Plan. This pattern of concentration of investment means that other industries which contributed much to growth in the recent past will no longer make the same relative contribution.

A third limiting factor on the Seven Year Plan goals will be the need for a vastly increased housing program and the claim on construction resources for this purpose. It must compete with higher priority "material strength" requirements in the industrial construction sector. It will call for improvement over past performance in completing construction of industrial projects with the time and funds allotted.

Fourthly, the regime faces a complexity of problems in its attempt to increase its automation and mechanization programs.

Finally, as we have already suggested, the Soviet leadership will have difficult decisions to make in dealing with the popular demand for more consumer goods. We believe that they now estimate that they can get away with a slight gradual improvement and this will be highly publicized and probably exaggerated. This appeared in the case of the demand of a few days ago for more consumer goods. If, however, the popular demand should greatly increase and the Soviet leaders make very significant concessions in this field, it would affect the Seven Year Plan goals.

Primarily because agricultural growth will be slower than in the recent past, we project a moderate slowdown in the rate of total Soviet output, or gross national product, over the next seven years, compared to the past seven years. However, even so, the USSR will achieve significant gains by 1965 in its self-appointed task of catching up with the United States, particularly in industrial production and ^{should} substantially meet the industrial goals of the Seven Year Plan.

Thus we estimate that Soviet GNP will grow at the rate of 3 per cent a year through 1965, and even assuming that the United States gross national product for the years 1956 through 1965 can be increased to an annual growth rate of from 3.5 to 4 per cent, our best postwar growth rate, then Soviet GNP will be slightly more than 50 per cent of ours by 1965, and about 55 per cent by 1970. I would emphasize that we must increase our recent rate of growth, which has been less than three per cent over the last six or seven years, to hold the Soviets to such limited gains.

In the industrial sector the race will be closer. We believe it likely that the Soviets will continue to grow industrially by 3 or 4 per cent a year. If they do so, they could attain by 1970 about 60 per cent of our industrial production, provided our industrial growth rate averages $4\frac{1}{2}$ per cent per annum. Any decrease in this rate would of course narrow the gap. For example, if our rate were to average the 3 per cent which Khrushchev believes is the best we have in us, by 1970 the Soviets' industrial production would be more than 80 per cent of ours if they maintain the rate of growth forecast.

* * *

At the same time as we take note of Soviet progress, there is no reason to accept Soviet exaggerations of their prospects in the economic race.

In the propaganda surrounding the launching of the Seven Year Plan, Khrushchev made a number of statements about Soviet economic power which were nothing more than wishful thinking. Specifically, he stated that, "after the completion of the Seven Year Plan, we will probably need about five more years to catch up with and outstrip the United States in industrial output." "Once," he added, "by that time (1970), or perhaps even sooner, the Soviet Union will advance to first place in the world both in absolute volume of production and in per capita production."

From other evidence before us we do not believe that Mr. Khrushchev left the United States with any such illusion.

First of all, to reach such improbable conclusions, the Kremlin leaders overstate the present comparative position. They claim USSR industrial output to be 50 per cent of that of the U.S. It is in fact nearer 40 per cent. Also, as I have mentioned, this is predicated on Khrushchev's forecast that our growth will be only 2 per cent a year which, I trust, is wholly unrealistic.

Another of Khrushchev's promises to his people is that they will have the world's highest standard of living by 1970. This is a gross exaggeration. It is as though the shrimp had learned to whistle, to use one of his colorful comments.

Although year by year since 1953 the Soviets have been continually raising the level of production of consumers goods, their consuming public still fares very badly in comparison with ours. This is true not only in the quality and quantity of their consumer goods, but particularly in the hours of labor needed to purchase comparable products. Last year, for example, Soviet citizens had available barely one-third the total goods and services available to Americans. Indeed, the per capita living standard in the Soviet Union today is about one-fourth that being enjoyed by our own people.

The Soviet government last month announced the program for increasing the production of certain durable consumers goods which I alluded to above. The decree did not mention automobiles but included refrigerators, sewing machines, vacuum cleaners, and the like.

Actually, the new program covers only about five per cent of Soviet industrial production, and even in this narrow area raises goals but modestly above previous plans. The decree is one of a series introduced to provide a trickle of further benefits to the consumer at relatively small cost to the state. This does not mean that Soviet industrial investment or military programs need be reduced.

There is another economic area where the world has been treated to propaganda statements by Khrushchev. Last February he claimed and has since repeated many times, that the socialist camp "now accounts for over one-third of the world's industrial output" and "will produce over half of the total world industrial output by 1965."

Actually, total industrial production of the "socialist camp" - the USSR, the European Satellites and Red China - is only about 25 per cent of total world output. By 1965, it will be a few percentage points higher but Free World production will still account for over 70 per cent of the total.

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To summarize and conclude:

(1) The communists are not about to inherit the world economically. But while we detect the distortions of their propaganda, we should frankly face up to the very sobering implications of the Soviet economic program and the striking progress they have made over the last decade.

(2) The fulfillment of the present Soviet Seven Year Plan is a major goal of Soviet policy. Khrushchev and the Kremlin leaders are committed to it and will allocate every available resource to fulfill it. The present indications are that Khrushchev desires a period of "consolidation" in which to reach the objectives of this plan.

(3) With the economic policies expected under the plan, Soviet military spending could increase by about 50 per cent by 1965 without increasing the relative burden on the economy. Additional improvements in the Soviet standards of living can also be made without sacrificing the present emphasis on heavy industry and armaments.

(4) Future economic gains will also provide the goods and the services needed to further expand Soviet economic penetration of the uncommitted and the underdeveloped nations of the Free World. These gains will also permit the Soviet to further assist in the rapid economic growth of the Kremlin's eastern ally, Communist China, if Soviet policy considerations dictate such a course.

(5) If the Soviet industrial growth rate persists at 4 or 5 per cent per annum over the next decade, as is forecast, the gap between our two economies by 1970 will be dangerously narrowed unless our own industrial growth rate is substantially increased from the present pace.

(6) The major thrust of Soviet economic development and its high technological skills and resources are directed toward specialized industrial, military and national power goals. A major thrust of our economy is directed into the production of the consumer type goods and services which add little to the sinews of our national strength. Hence, neither the size of our respective gross national products nor of our respective industrial productions is a true measure yard stick of our relative national power positions.

The uses to which economic resources are directed largely determine the measure of national power.